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Banking Report

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MIAMI'S THRUST IN INTERNATIONAL BANKING

I. INTRODUCTION

As a new decade commences, the internationalization of Miami's banking community continues unabated. Miami's emergence in the international financial world during the 1970s was generally sustained by its Latin American linkage—both geographic and demographic—and by the promulgation by the state of international banking legislation to provide a regulatory framework for international banking activity. These elements set in motion the forces which are contributing to Miami's development into a full-service, specialized, Latin American banking center of national and international dimension. The vehicles for Miami's increased international banking activity are (a) foreign banks, (b) Edge Act corporations of large out-of-state banks, (c) local commercial banks, and (d) international banking facilities. This study describes the scope of activity of these institutions and identifies the magnitude of their operations in Miami.

II. FOREIGN BANKS

Foreign Bank Agency Operations

Liberalization of Florida's international banking legislation and Miami's rising importance as a Latin American banking center were prime inducements in the initial establishment and expansion of the number of foreign banking corporations located in Miami. Table 1 identifies the foreign banks operating in Miami, the status of their local offices, and their head-office city and country of origin.

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TABLE 1

FOREIGN AGENCIES AND REPRESENTATIVE OFFICES LOCATED IN MIAMI AS OF JUNE 30, 1980

Status	Foreign Banks	Home Office
Agencies	1. Banco Central, S. A.	Madrid, Spain
	2. Banco de Bilbao, S. A.	Bilbao, Spain
	3. Banco de la Nacion Argentina	Buenos Aires, Argentina
	4. Banco de la Provincia de Buenos Aires	Buenos Aires, Argentina
	5. Banco de Santander	Santander, Spain
	6. Banco do Brasil, S. A.	Brasilia, Brazil
	7. Banco do Estado de Sao Paulo, S. A.	Sao Paulo, Brazil
	8. Banco Exterior de Espana, S. A.	Madrid, Spain
	9. Banco Real, S. A.	Sao Paulo, Brazil
	10. Bank Hapoalim, B.M.	Tel Aviv, Israel
	11. Bank Leumi le-Israel, B.M.	Tel Aviv, Israel
	12. Bank of Nova Scotia	Toronto, Canada
	13. Israel Discount Bank Ltd.	Tel Aviv, Israel
	14. Lloyds Bank International Ltd.	London, England
	15. Standard Chartered Bank Ltd.	London, England
Representative Office	1. Banco Internacional de Costa Rica	San José, Costa Rica
	2. Bank of Tokyo Ltd.	Tokyo, Japan

Source: Division of Banking, Office of Comptroller, State of Florida, Tallahassee.

As of June 30, 1980, Miami's foreign banking institutions amounted to seventeen, of which fifteen were licensed to operate at the agency level and two at the representative office level. The majority of these institutions were from non-Latin American countries. This would appear surprising at first since Miami's major trade base is Latin America. It is worth noting, however, that few of the world's large banks are from Latin America. Most that are from there, are located in Brazil. Another prohibitive factor is the state's $25 million capital requirement for foreign banks to qualify for the establishment of an agency. As a result of these factors, the largest number of foreign agencies in Miami come from non-Latin American countries.

With the exception of the English and Canadian agencies whose parent banks have long been active in the international field and whose presence in Miami can therefore be seen as part of the international network of their organizations, the remaining agencies belonged to banks with little international banking tradition. Such was the case of Spanish and Israeli foreign bank agencies in Miami. The local establishment of Spanish agencies was induced by the existence of a large Hispanic community and Miami's proximity to Central and South America which rendered it the most suitable "base from which to promote Spanish industrial expertise" to Latin American countries.[1] The establishment of Israeli agencies in Miami, on the other hand, was prompted by the large population of older Jewish residents which represented an untapped potential for savings deposits for Israeli banks. These agencies took advantage of the opportunity to function as conduits, funneling significant Jewish deposits to their New York branches. The recent expansion by the state legislature of the agency powers to include domestic lending enabled these agencies to also direct their lending activities to the local Jewish community. Indeed, the first agency to take advantage of its expanded powers in this direction was the Israel Discount Bank which by the end of June 1980 had an application pending before Florida's Department of Banking and Finance for permission to establish an additional office in downtown Miami.

The financial importance of Miami's foreign bank agencies on December 31, 1979, is depicted in Table 2. As seen in this Table, the total year-end assets and credit balances of these agencies amounted to $171.1 million and $7.9 million respectively. What is striking about this data is that credit balances constituted only five percent of agency assets. This imbalance reflected the restrictive scope of agency operations which prevailed initially in Florida and which prohibited state-charted agencies from accepting deposits. To overcome this limitation, agencies had to rely essentially on other sources of funds to sustain their international activity. The most important of these sources was borrowing from the parent bank and other branches in the parent network. Agency reliance on this source amounted, at

1. *Miami: The New Caribbean Capital*, EUROMONEY, June 1979, at 128.

year-end 1979, to $127.1 million or seventy-four percent of total assets. Another source of funds was borrowing from the interbank market. These funds amounted to $25.2 million or fifteen percent of total assets and took the form of federal funds, term federal funds, and Eurodollars.[2]

TABLE 2

SELECTIVE INDICATORS OF AGENCY ACTIVITY DECEMBER 31, 1979 (In thousands of U.S. dollars)

Foreign Banks	Assets	Credit Balances	Net Income
Banco de la Provincia de Buenos Aires	$ 1,195	—	$ (5)
Banco de Santander	4,405	$ 590	40
Banco do Brasil, S. A.	5,200	190	(313)
Banco do Estado de Sao Paulo, S. A.	48,355	317	221
Banco Exterior de Espana, S. A.	9,938	77	36
Banco Real, S. A.	13,360	2,550	(11)
Bank Hapoalim, B.M.	53	—	(52)
Bank Leumi le-Israel, B.M.	446	—	(38)
Bank of Nova Scotia	2,169	495	(239)
Israel Discount Bank Ltd.	34	—	—
Lloyds Bank International Ltd.	62,096	1,388	408
Standard Chartered Bank Ltd.	23,817	2,314	13
TOTAL	$171,068	$7,921	$ 60

Note: Compiled from the individual year-end results of each of the agencies listed in Table 1, except for Banco de Bilbao and Banco de la Nacion Argentina which though licensed in 1979 and 1978 respectively did not begin operations until 1980.
Source: Division of Banking, Office of Comptroller, State of Florida, Tallahassee.

A closer examination of the individual agencies listed in Table 2 indicates that their relative financial importance was far from uniform. Indeed, a closer look at the individual assets reveals a significant variation in the size of these agencies, ranging from $34,000 for Israel Discount Bank to $62.1 million for Lloyds Bank International Ltd.

2. For a more detailed discussion of the make up of agency assets and liablities *see* E.N. ROUSSAKIS, MIAMI'S INTERNATIONAL BANKING COMMUNITY: FOREIGN BANKS, EDGE ACT CORPORATIONS AND LOCAL BANKS 22-25 (1981).

More specifically, three agencies—Banco do Estado de Sao Paulo, S.A., Lloyds Bank International Ltd., and Standard Chartered Bank Ltd.—possessed more than three-fourths of total agency assets. Lloyds Bank alone accounted for 36.3% of the assets of all Miami agencies and held 48.8% of total agency loans. Equally impressive was Lloyd's income performance for the year, amounting to $408,000 or 68.0% of all agency net income. Unlike Lloyd's income performance, the profitability record of other Miami agencies was generally modest or even poor. The performance of individual agencies was clearly symptomatic of a variety of factors. Of importance were the years of agency operation, size and scale of international activity, state regulatory constraints, agency management, parent bank philosophy, and the prevailing liquidity in the Eurodollar markets which influenced adversely the size of loan spreads and hence agency profitability.[3]

Implemented in February of 1980, Florida's new agency legislation is expected to add important impetus in the growth of agency activity. The foreign deposit-taking capabilities of agencies will significantly improve agency funding while the extension of agency lending to the domestic market will increase the size of their loan portfolio. Moreover, elimination of the usury ceiling rates and the intangible and documentary stamp taxes is expected to enhance the overall profitability of agency operations. The liberalization of these state regulations is creating a new environment in which agencies will prosper much more than they have in the past. In this regard, year-end 1979 data must be viewed as a floor to continued progress.

III. Edge Act Corporations

Background

In 1919, the U.S. Congress amended the Federal Reserve Act to expand its original provisions and allow U.S. banks—individually or jointly—to establish subsidiary corporations outside their home state to engage in international banking. This amendment became section 25(a) of the Federal Reserve Act and is also referred to as the Edge Act, named after its sponsor Senator Walter Edge of New Jersey. Corporations chartered by the Federal Reserve Board under this

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3. In the last two years, spreads on prime loans of short-term maturity (i.e., up to one year) have been quoted as low as 37 basis points over the cost of funds. *See* Morgan Guaranty Trust Company of New York, World Financial Markets 4, 9 (March 1978) and updates thereto.

amendment have come to be known as "Edge Act corporations" or simply Edge corporations.

The interest of U.S. banks in this vehicle of international activity dates from the mid-1950s and coincided with the postwar dismantling of exchange controls and increased international flow of private capital. Initially, many U.S. banks and bank holding companies, which were otherwise prohibited from investing directly in foreign banks and corporations, established invesment (or financing) Edges to indirectly attain this objective. This interest of banks in investment Edges suffered important setbacks from subsequent legislative amendments which eliminated some of the major advantages of this vehicle. Specifically, in 1966 the Federal Reserve Act was amended to permit national banks to invest in foreign banks. This change effected an important erosion in the traditional advantage of investment Edges. However, a second and more serious setback occurred with the 1970 amendment to the Bank Holding Company Act of 1956 which allowed bank holding companies to invest in foreign companies under guidelines similar to those governing investment Edges. With the adoption of these two amendments, banks and bank holding companies were permitted to acquire foreign equity interests formerly limited to their Edge subsidiaries.

With the major advantage of an investment Edge being virtually eliminated, and the burden of the minimum capital requirement of $2 million, domestic banks were forced to reevaluate the overall benefits of the Edge vehicle. This reevaluation made apparent another important advantage of this vehicle: the ability to use it for the conduct of international banking business. A 1963 revision of Regulation K of the Federal Reserve Board which covers these corporations had further enhanced this advantage by eliminating most of the legal implications in the distinction between investment and banking Edges.[4] This banking dimension of Edge subsidiaries thus came to play a significant role in the further development of these corporations. At the end of 1979, there existed seventy such corporations totaling assets of $14 billion.

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4. The only distinctions remaining relate to deposit-taking capabilities and lending limits, and capital gain requirements. According to current provisions of the Board's Regulation K, "an Edge Corporation is 'engaged in banking' if it is ordinarily engaged in the business of accepting deposits in the United States from non-affiliated persons." As a banking Edge, it can grant credit to any one customer only up to 10% of its capital and surplus. The new capital requirements for a banking Edge have been set at 7% of risk assets. An Edge not "engaged in banking" that is, an investment Edge, cannot accept deposits and has no capitalization requirements. On this issue, *see* International Banking Operations, 12 C.F.R. §§ 211.2(d), 211.6(b)(i) (1981).

On June 14, 1979, the Federal Reserve Board issued a new Regulation K which introduced important changes in the organization and operation of Edge corporations to improve their international competitiveness and efficiency. Previously, in section 3 of the IBA, the Congress had introduced the most significant amendments to section 25(a) of the Federal Reserve Act since that section's enactment in 1919. The amendments provided Edge corporations with sufficiently broad powers to compete effectively with foreign banks in the United States and abroad. In response to these amendments, the Board adopted several major modifications in its Regulation K.[5] Reserve requirements on Edge corporations were revised to correspond to those of member banks, eliminating the longstanding ten percent statutory minimum reserve ratio on aggregate deposits. To enhance the domestic lending powers of Edges, their previous limitation to international trade financing was amplified by Regulation K. This permitted these corporations to finance the domestic production of goods and services that are identifiable as being directly for export or non-segregated goods for which export orders have been received.

On the liability side, Edge corporations have been allowed to accept demand, time, and savings deposits from, and to issue negotiable certificates of deposit (CDs) to, U.S. residents, as long as the funds involved are related to an international transaction. The authority of Edge corporations to accept deposits from foreigners remained unchanged.

Another important new provision of the revised regulation permits domestic interstate branching of Edge corporations, rendering it more efficient and less costly to enter and operate in new locations. By establishing a parent Edge and converting its other offices into branches, a bank with multiple Edge corporations in various states can reduce costs, duplication of minimum capital requirements, and other inconveniences arising from these incorporations. Apart from the operational economies involved, the larger capital of the consolidated Edge corporation would increase its branches' dollar lending limits to single customers.

Other revisions of Regulation K included new minimum capitalization requirements, relaxation of debt/net worth requirements, and ownership of Edge corporations by foreign banks.

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5. *Id.* §§ 211.4-.7.

Activity of Miami Edge Act Corporations

Edge corporation activity in Miami dates from 1969 when an Atlanta-based regional bank took the initiative and established an Edge corporation in Miami. In the years that followed, the number of Edge corporations domiciled in Miami grew significantly as banks from California, Illinois, Massachusetts, and New York sought to establish their presence in Miami. Miami represented an attractive and convenient location for their Central and South American operations. By the end of 1979, fifteen Edge corporations were operating in Miami, placing it next in importance only to New York City and ahead of such financial centers as Los Angeles, San Francisco, Houston, and Chicago. The timing and sequence of the establishment of these Edge corporations in Miami is detailed in Table 3.

TABLE 3

MIAMI EDGE CORPORATIONS AT YEAR END 1979

Name of Edge Corporation	Home Office	Commenced Business
1. Citizens and Southern International Bank	Atlanta	3-24-69
2. Bank of American International of Florida	San Francisco	3-08-71
3. Citibank Interamerica	New York	5-03-71
4. Irving Interamerican Bank	New York	8-02-71
5. Well Fargo Interamerican Bank	San Francisco	8-16-71
6. Bank of Boston International of Miami	Boston	5-15-72
7. Chase Bank International (Miami)	New York	10-19-72
8. Bankers Trust International (Miami) Corporation	New York	8-19-74
9. Northern Trust Interamerican Bank	Chicago	9-16-74
10. Morgan Guaranty International Bank of Miami	New York	2-15-77
11. Marine Midland Interamerican Bank	Buffalo	12-26-78
12. Manufacturers Hanover Bank International	New York	2-20-79
13. Republic International Bank of New York	New York	2-23-79
14. Continental Bank International of Miami	Chicago	5-29-79
15. Chemical Bank International of Miami	New York	9-24-79

Note: With Board approval, the names of some of these Edges have partially changed to accommodate their moves for regional or national expansion and consolidation. For example, Citibank Interamerica has changed to Citibank International; Morgan Guaranty International Bank of Miami to Morgan Guaranty International Bank; and Manufacturers Hanover Bank International to Manufacturers Hanover International Banking Corporation.

Source: Compiled by the author, based on information obtained from the Board of Governors, Federal Reserve System.

Although already impressive, this list of Miami Edges is expected to increase even further as the city continues to develop as an international financial center. Indeed the increasing recognition of Miami's potential by out-of-state banks and foreign banking corporations is expected to sustain the current pace of expansion in Edge corporations. This was illustrated by developments in 1980, the year of the largest Edge influx in Miami's history. During 1980, four new banking Edges commenced business in Miami (J. Henry Schroder International Bank, Banco de Santander International, Inc., American Security Bank International and Banco de Bogota International), while two were approved by the Board for establishment locally (First Union International Bank and Riggs International Bank Corporation).

Clearly, part of the expected expansion in Miami Edges will also stem from the recent revisions of Regulation K and the authority of Edge corporations to branch across state lines. Three out-of-state Edge corporations have obtained the approval of the Federal Reserve Board and have established, or are about to establish in 1980, branch offices in Miami (Security Pacific International Bank of New York, New England Merchants Bank International of Boston, and United California Bank International of New York).

Of course the same process works in reverse: Miami Edges are opening branches in promising out-of-state financial centers. Citibank International, for example, received Federal Reserve Board authorization to establish branches in several U.S. cities. In some instances, this trend is combined with regional or national consolidations of Edge activity. In other words, Miami Edges have become the main office and former Edges elsewhere have been converted to branches of the Miami Edge. Manufacturers Hanover International Banking Corporation, for example, obtained the Board's permission to convert its Los Angeles counterpart into a branch. Morgan Guaranty International Bank did the same with its Houston and San Francisco counterparts. Table 4 illustrates these conversions.

These conversions mark the emergence of various trends. The first is that parent banks are preparing for the advent of nationwide branch banking.[6] Second, is that throughout the country the parent banks are leaning toward consolidation on a regional scale. As shown in Table 4, all three Miami Edges embarked upon some degree of consolidation. One common feature in all three cases is that Edges in

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6. *Behind the Stampede in Edge Act Banking*, BUS. WK., Aug. 18, 1980, at 24.

TABLE 4

MIAMI EDGE CORPORATIONS APPROVED TO BRANCH IN OTHER STATES AS OF JULY 1, 1980

Name of Edge Corporation	Approved	Location of Branches
Citibank International	1-21-80	Chicago, Illinois* Houston, Texas* Los Angeles, California* San Francisco, California* Seattle, Washington Minneapolis, Minnesota St. Louis, Missouri Cleveland, Ohio Boston, Massachusetts Atlanta, Georgia
Manufacturers Hanover International Banking Corp.	5-28-80	Chicago, Illinois Houston, Texas Los Angeles, California*
Morgan Guaranty International Bank	5-14-80	Houston, Texas* San Francisco, California*

*Conversions of banking Edge Corporations established in these cities into branches of the corresponding Miami Edge.

Source: Compiled by the author based on information obtained from the Board of Governors, Federal Reserve System.

California, and to some extent Texas, are being converted into branches. It is too early to tell if a pattern is developing, however the size and reputation of the parent banks involved makes this development significant. A major factor underlying these conversions was the prevailing tax system in each of these states—California's unitary tax and Texas' bankshares taxation. Both of these taxes significantly affected the cost of operation in these states. Thus, the more favorable tax environment in Florida and Miami's international financial potential had an important bearing on the decision to convert Edges in these states into branches of the Miami Edge.

The financial importance of Miami's Edge corporations is illustrated by the financial condition of these Edges depicted in Table 5. Total Edge assets at year-end 1979 amounted to $1,384.4 million. These assets were largely financed through deposits, which totaled $824.2 million and accounted for almost sixty percent of Edge assets.

In accordance with the older provisions of Regulation K, Miami Edge deposits included no passbook savings, only time and demand deposits. The new provisions of this regulation now make it possible for Edges to increase their deposit resources by offering passbook savings accounts.

TABLE 5

SELECTIVE INDICATORS OF EDGE ACTIVITY DECEMBER 31, 1979 (In millions of dollars)

Name of Edge Corporation	Total Assets	Total Deposits	Capital
Bank of America International of Florida	$ 104.5	$ 72.9	$ 8.2
Bank of Boston International of Miami	110.9	60.8	17.9
Bankers Trust International Corporation	33.5	25.4	4.9
Chase Bank International	213.5	186.2	18.5
Chemical Bank International of Miami	8.1	2.8	5.1
Citizens and Southern International Bank	156.2	107.6	12.7
Citibank International	235.2	183.2	15.1
Continental Bank International of Miami	27.2	10.3	10.0
Irving Trust Company International of Miami	102.0	55.7	9.6
Manufacturers Hanover International Banking Corporation	24.2	8.5	13.2
Marine Midland Interamerican Bank	17.4	14.5	2.5
Morgan Guaranty International Bank	217.1	25.1	61.5
Northern Trust Interamerican Bank	48.1	39.9	4.1
Republic International Bank of New York	43.8	1.1	26.5
Wells Fargo Interamerican Bank	42.7	30.2	5.0
TOTALS	$1,384.4	$824.2	$214.8

Source: Compiled by the author based on information obtained from the Board of Governors, Federal Reserve System.

Revision of the deposit provisions of Regulation K also benefited Miami Edges by reducing their cost of maintaining reserves against time deposits. Under the older provisions of Regulation K, Edge time deposits were subject to the same minimum ten percent reserve requirements which applied on their demand deposits. With member bank reserve requirements on time deposits varying only from one to six percent, the cost of maintaining time deposits by Miami Edges was significantly higher than that of local commercial banks. This was important to Miami Edges because more than half of their deposit base was in the form of time accounts. Thus, the new Regulation K, by subjecting Edge deposits in general to the reserve requirements in force for member banks, has effected important cost savings in the reserves of Miami Edges.

Another item depicted in Table 5 is Edge capital which amounted to $214.8 million and accounted for 15.5% of total assets. One of the functions of capital is to determine a bank's lending limit—that is, the amount that can be lent to any one borrower on an unsecured basis. Just as with national banks, banking Edges can lend up to ten percent of their capital and surplus to any one borrower. Initially many of the Miami Edges had close to the $2 million minimum capitalization requirement, which limited lending capacity to loans up to $200,000. This limitation forced these Edges to channel large credit requests to their head offices or in a few instances to make such loans with the participation of the head office and/or other subsidiaries. Over the years, however, their capital base has expanded as a result of increased earnings and capital infusions from parent banks. With the recent revision of Regulation K to permit interstate branching, the capital base of Miami Edges is expected to increase further. As previously indicated various Miami Edges have been to the process of consolidating their operations by converting out-of-state offices into branches. This process will increase the capital base of Miami Edges and give them the ability, and hence financial independence, to make larger individual loans.

Another observation which stems from the data of Table 5 pertains to prevailing differences in the size of individual Miami Edges. The size differences of these Edges reflect a combination of factors, such as the specific role of each individual Edge in the parent bank's international network, size of capital, years in operation, and Edge management. Whatever the underlying factors, Miami Edges enjoyed a twofold benefit. First, relatively few employees have been generating a large volume of loans—wholesale financing. Second, the cost of deposit funds has been very low, as a large portion of them represented "flight money" and money escaping national currency restrictions. To these depositors, the interest rate earned on their funds has been only a secondary consideration.[7] Both of these developments have contributed significantly to the level of Miami Edge profitability

7. Stickler, *Miami Has the Latin Edge in Foreign Banking*, Miami Herald, Sept. 8, 1980, at F18.

which at year-end 1979 amounted to $24 million or about nineteen percent of their total operating income.[8] This size of profit margin clearly indicates how profitable Latin American operations are.

This profit margin is expected to increase in the immediate future as a result of the recent revisions to Regulation K, and the liberalized scope of Edge operations. Indeed, the broader deposit-taking capabilities of Edges introduced through these revisions and the authority to branch across state lines will boost the operations of Miami Edges and further increase their level of profitability. Most of the increase in profitability, however, will result from the broader capital base and the ensuing greater lending capacity which will result from the consolidation of Edge offices across the country into a single corporate entity. With the selection of Miami as the home base for a number of such corporations, the overall profitability of Miami Edges will be affected accordingly.

Beyond the effects of the Regulation K revisions on profitability, Miami Edges are also expected to gain from the recent elimination of the documentary stamp tax and intangible tax in Florida. Elimination of these taxes will reduce the tax expense of these Edges and add further to their overall profit performance.

IV. Local Commercial Banks

Local Miami banks have contributed their share in Miami's emergence as an international financial center. This share has been essentially along traditional lines: gathering foreign deposits, making foreign loans and offering a variety of other foreign services. One bank alone, Southeast First National Bank, accounted for an overwhelming majority of the international activity of local banks. Southeast First National Bank is a bank of regional stature and by far the most internationally active of Florida banks. Its year-end 1979 foreign assets of $367.7 million constituted sixty-seven percent of the foreign assets of Miami banks, while its foreign deposits of $881.8 million accounted for ninety-four percent of these banks' foreign deposits. Southeast's foreign deposits consisted essentially of IPC time and savings deposits (seventy-nine percent), solicited over the years by the domestic office and its Nassau branch. This magnitude of international activity contributed significantly to the bank's 1979 income performance, as depicted by Table 6.

8. Roussakis, *The Edges Come to Miami*, 164 Bankers Magazine No. 3 (1981).

TABLE 6

PROFITABILITY OF FOREIGN OPERATIONS OF SOUTHEAST FIRST NATIONAL BANK AS OF DECEMBER 31, 1979

Items	Amount (in millions of dollars)
Pre-tax income attributable to international business	$ 7.5
Less all income taxes attributable to international business	3.5
Net income attributable to international business	4.0
Consolidated pre-tax income	33.7
Total taxes before security gains or losses	9.8
Security gains (losses), net	(.6)
Net income	$23.3
Percent of foreign pre-tax income to consolidated pre-tax income	22.2%
Percent of net foreign income to consolidated net income	17.2%

Note: The profitability of Southeast's international operations is based on management estimates.

Source: Southeast First National Bank, *Report of Income*, December 31, 1979, Federal Deposit Insurance Corporation.

The impact of foreign operations is significant for Southeast First National Bank: twenty-two percent of the 1979 pre-tax (or seventeen percent of the net) income was derived from foreign operations. However, the actual impact of foreign operations was even greater because a large portion of the bank's foreign deposits were utilized in making domestic loans. This fact is evidenced by the $514.1 million differential between the bank's foreign deposits ($881.8) and foreign assets ($367.7 million).

Apart from Southeast First National Bank, a limited number of local banks (fifteen out of sixty-eight banks) exhibited varying degrees of international activity. Some of these are Dade County's largest independent banks (nine) and others are foreign-owned local banks (six). The foreign assets and deposits of these banks amounted to a modest $181.9 million and $53.2 million respectively. With Southeast First National Bank data included, foreign assets and deposits of local

Miami banks amounted to $549.6 million and $935.0 million respectively.[9]

Analysis of the foreign activity of local banks—whether independent or foreign-owned—reveals that Miami banks have placed great emphasis on correspondent relationships and bank-to-bank credits, thus significantly contributing to the financing of international trade. Other aspects of their international activity include a limited amount of foreign loans for purposes other than trade financing, and claims of domestic offices on their foreign branches. This activity of Miami banks is funded in its entirety through foreign deposits. In fact, the volume of these deposits exceeds foreign assets by some $385.5 million, thus making it possible for these banks to also fund domestic activity and benefit from the higher interest margins prevailing at home.

Miami's rising importance as a full-service, specialized, Latin American banking center is expected to accelerate the development of international financing expertise by local banks. Moreover, the ongoing process of consolidation of local banks, in light of liberalized state branching regulations, is expected to further expedite the development of such international expertise.

V. International Banking Facilities

To sustain Miami's international banking momentum, the State of Florida has recently enacted legislation which fully exempts International Banking Facilities (IBFs) from all state and local taxes. Florida's initiative came in response to regulation introduced by the Board of Governors of the Federal Reserve System providing for the establishment of IBFs, effective December 3, 1981. This regulation permits banking institutions to conduct offshore banking operations from their domestic offices. These operations would be exempt from the reserve requirements of Regulation D and the interest rate limitations of Regulation Q of the Federal Reserve System. The Board's justification for IBFs is that they enhance the international competitive position of banking institutions in the United States. Specifically, provisions of the IBF regulation permit the establishment of facilities by any U.S. depository institution, which include banks, savings and loan associations, Edge Act corporations, and agencies of foreign banks.

These institutions will not have to establish separate organizational structures for IBFs. The regulation contemplates that an IBF

9. Roussakis, *supra* note 2, at 70, 78.

will be operated primarily as a record-keeping entity similar to an offshore shell branch.[10] In this regard, they may be established by initially identifying and segregating existing assets and liabilities that qualify under the definitions in Regulations D and Q and under other regulatory provisions applicable to IBFs.

Institutions wanting to establish IBFs must notify the Federal Reserve Bank of their district at least fourteen days prior to the first reserve computation period in which they intend to begin accepting IBF deposits and to abide by the conditions established by the Board for conducting an IBF business. There is no requirement for application to or approval by the Board to establish an IBF, however, there are restrictions established by the chartering or licensing authority.

IBFs are expected to function as offshore entities accepting deposits from and extending credit to foreign residents. Under the rules established by the Board, IBFs may only offer time deposits. Time deposits offered to foreign non-bank residents have a minimum maturity of two business days and generally require minimum deposits and withdrawals of $100,000. IBFs may also accept time deposits from foreign offices of other United States depository institutions, foreign banks, other IBFs, or the parent institution of an IBF with a minimum of one day (overnight) maturity.

By the same token, IBFs may extend credit to foreign residents, foreign banks, other IBFs, and the U.S. and non-U.S. offices of the parent institution which has established the IBF. Advances to the parent institution or its U.S. offices are subject to the reserve requirement provisions on Eurocurrency liabilities of Regulation M of the Federal Reserve. Currently, the reserve ratio on such liabilities is three percent.[11] IBF deposits and loans may be denominated in U.S. dollars or in foreign currency.

It is required that the scope of IBF activity be explained in writing to IBF non-bank customers at the time a loan or deposit

10. Shell branches are limited-service facilities which are used by banks for the conduct of international activity. They were first introduced in the early 1970s by the Federal Reserve Board to encourage the participation of a wider number of U.S. banks in international activity and promote competition. As a result of this development, a number of U.S. banks have established shell branches in Nassau, Bahamas or in Georgetown, Cayman Islands. These offices are in essence "booking centers" with no physical presence abroad other than a local address. The loan and deposit transactions of these offices are made, in their entirety, at their parent banks' premises.

11. From August 24, 1978, to November 12, 1980, the Eurocurrency liabilities of parent institutions were zero. *See* FED. RES. BULL., June 1981, at A8, n.2(c).

account relationship is first established. Furthermore, non-bank foreign affiliates of U.S. residents are required to acknowledge in writing receipt of such notice. The model statement suggested by the Federal Reserve for use by IBFs in advising their non-bank deposit and loan customers of the Board's policy is as follows:

> It is the policy of the Board of Governors of the Federal Reserve System that, with respect to non-bank customers, deposits received by international banking facilities may be used only to support the non-U.S. operations of a depositor (or its foreign affiliates) located outside the United States and that extensions of credit by international banking facilities may be used only to finance the non-U.S. operations of a customer (or its foreign affiliates) located outside the United States.[12]

Florida legislation has closely followed the wording of the Board's IBF regulation. Thus it extends to Florida-based IBFs the same scope of activities provided by the federal regulation. The only restriction that applies to the activities of Florida-based IBFs relates to fiduciary services, but only to the extent that the parent institution is prohibited from such services. This restriction extends to the IBFs of Florida-based foreign agencies which are prohibited from trust activities.

Just as Florida has enacted legislation to maintain, if not to strengthen, its competitive position in international banking, other states have been moving in the same direction. Table 7 lists the states that have passed IBF legislation as of June 3, 1981.

It is worth noting that New York, California, Georgia and Puerto Rico, in addition to Florida, have already acted to exempt international banking facility transactions from state and local taxes.[13] This development underlines the importance of Florida's IBF legislation in that it assures Florida's competitiveness with other international-banking oriented states.

The establishment of IBFs in Florida will add another important dimension to Miami's international financial development. It would induce the local establishment of additional Edge Act offices, especially from banks which lack New York offices and operate in states

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12. Board of Governors, Federal Reserve System, *International Banking Facilities*, tit. 12, ch. 11, subch. A, Docket No. R-0214, parts 204, 217, at 3. (accompanying Fed. Res. Press Release on IBFs, June 18, 1981).

13. Florida House of Representatives, *International Banking Facilities, Bill Analysis*, June 25, 1981.

TABLE 7

IBF LEGISLATION

States	Legislation passed	Legislation pending	Legislation not adopted
Connecticut	X		
Florida	X		
Georgia	X		
Maryland	X		
New York	X		
California		X	
Hawaii		X	
Massachusetts		X	
Illinois		X	
Washington			X

Source: Board of Governors, Federal Reserve System, "International Banking Facilities", Office Correspondence to the Board from the staff, June 3, 1981.

without tax exempt IBFs. This should further expand the volume of Miami's international activity and accelerate Miami's surge in international banking.

As Miami's international banking community expands, as IBFs are established locally, as interbank transactions grow, and as bank clearings become more efficient, Miami's importance as a Latin American banking center will become more and more recognized both nationally and internationally.